Q. What is the platform for commodity futures' trading?

Ans. There are three options - the National Commodity and Derivative Exchange, the Multi Commodity Exchange of India Ltd and the National Multi Commodity Exchange of India Ltd. All three have electronic trading and settlement systems and a national presence.

Q. Is there only delivery transaction or settlement in cash?

Ans. You can do both. All the exchanges have both systems - cash and delivery mechanisms. The choice is yours. If you want your contract to be cash settled, you have to indicate at the time of placing the order that you don't intend to deliver the item.

If you plan to take or make delivery, you need to have the required warehouse receipts. The option to settle in cash or through delivery can be changed as many times as one wants till the last day of the expiry of the contract.

Q. What do I need to start trading in commodity futures?

Ans. You will require a bank account. And separate commodities demat account from the National Securities Depository Ltd to trade on the NCDEX just like in stocks.

Q. Where do I look for information on commodities?

Ans. Daily financial newspapers carry spot prices and relevant news and articles on most commodities. Besides, there are special magazines on agricultural commodities and metals available for subscription.

Information easiest to access is from websites. Though many websites are subscription-based, a few also offer information for free. You can surf the web and narrow down you search.

Q. Who is the regulator?

Ans. The exchanges are regulated by the Forward Markets Commission. Unlike the equity markets, brokers don't need to register themselves with the regulator.

The FMC deals with exchange administration and will seek to inspect the books of brokers only if foul practices are suspected or if the exchanges themselves fail to take action. In a sense, therefore, the commodity exchanges are more self-regulating than stock exchanges. But this could change if retail participation in commodities grows substantially.

Q. Who are the players in commodity derivatives?

Ans. The commodities market will have three broad categories of market participants apart from brokers and the exchange administration - hedgers, speculators and arbitrageurs. Brokers will intermediate, facilitating hedgers and speculators.

Hedgers are essentially players with an underlying risk in a commodity - they may be either producers or consumers who want to transfer the price-risk onto the market.
Producer-hedgers are those who want to mitigate the risk of prices declining by the time they actually produce their commodity for sale in the market; consumer hedgers would want to do the opposite.
For example, if you are a jeweler with export orders at fixed prices, you might want to buy gold futures to lock into current prices. Investors and traders who want to benefit or profit from price variations are essentially speculators. They serve as counterparties to hedgers and accept the risk offered by the hedgers in a bid to gain from favourable price changes.

Q. In which commodities can I trade?
Ans. Though the government has essentially made almost all commodities eligible for futures trading, the nationwide exchanges have earmarked only a select few for starters. While the NMCE has most major agricultural commodities and metals under its fold, the NCDEX, has 10 commodities (gold, silver, castor, soya, rape/mustard oil, crude palm oil, RBD palm oil and cotton). MCX offers futures trading in gold, silver and castor seed, rubber.

Q. Is stamp duty levied in commodity contracts? What are the stamp duty rates?
Ans. As of now, there is no stamp duty applicable for commodity futures that have contract notes generated in electronic form. However, in case of delivery, the stamp duty will be applicable according to the prescribed laws of the state the investor trades in. This is applicable in similar fashion as in stock market.

Q. How much margin is applicable in the commodities market?
Ans. As in stocks, in commodities also the margin is calculated by (value at risk) VaR system. Normally it is between 5 per cent and 10 per cent of the contract value.
The margin is different for each commodity. Just like in equities, in commodities also there is a system of initial margin and mark-to-market margin. The margin keeps changing depending on the change in price and volatility.

Q. Are there circuit filters?
Ans. Yes the exchanges have circuit filters in place. The filters vary from commodity to commodity but the maximum individual commodity circuit filter is 6 per cent. The price of any commodity that fluctuates either way beyond its limit will immediately call for circuit breaker.